Remarks of Ohio Governor Bob Taft
Before the Highways and Transit Subcommittee
Of the House Transportation and Infrastructure Committee
July 16, 2002

Chairman Petri, Congressman Borski, members of the Highways and Transit Subcommittee of the House Transportation and Infrastructure Committee, I am Bob Taft, Governor of the State of Ohio. I would like to thank you, Mr. Chairman, and members of this subcommittee for allowing me to testify today regarding a very important issue for Ohio - the erosion of revenue from the Highway Trust Fund. I especially want to thank the two Ohio members of the full committee - Representative Steve LaTourette and Representative Bob Ney - for their assistance in arranging this opportunity. As always, they are diligent in representing Ohio and in addressing the transportation needs of our nation.

Transportation is critical to the health and well-being of our nation and this is especially true in Ohio. Ohio is unusually dense and rich in transportation resources and it always has been. We are strategically located in the heart of America's manufacturing heartland. Within a day's drive of Ohio one can reach 50 percent of North America's population and 70 percent of North America's manufacturing capacity.

As a result, Ohio serves literally as the crossroads for America's manufacturing sector. Anything moving from Chicago to New York, or from Detroit to Atlanta or from Pittsburgh to St. Louis probably will move through Ohio. We are only 35th in geographic size, but we have the tenth largest highway network, the fifth highest volume of traffic and the nation's fourth largest interstate network. Few states rival Ohio for its logistical importance to the country. We estimate that the value of freight moved on Ohio's highways is the third highest of any state in the country.

As a national leader in transportation, Ohio is experiencing two significant trends that eventually will be evident throughout the country. The first of these trends is the rapid rise in truck traffic as American business fully adopts just-in-time strategies. Freight growth and truck growth is steadily outpacing automobile travel growth. In the past 25 years, Ohio has experienced a nearly 90 percent increase in truck traffic and that volume will grow approximately 60 percent in Ohio over the next

20 years. Already, 20 locations on Ohio's interstate highways carry in excess of 20,000 trucks each day. That equals one million trucks every 50 days. We have those volumes in Cincinnati, in Dayton, in Toledo, in Cleveland, in Akron, in Columbus and in many places in between. As those volumes grow another 60 percent over the next two decades, we can expect daily truck volumes of 30,000 big rigs on all of our major urban highways to be the norm in Ohio.

These truck volumes reflect the underlying health and robustness of America's economy, its logistical innovation and the flexibility of our supply chain. However, these volumes also create tremendous strain upon our highways. As our interstate highway system approaches its 50th year, its pavements, bridges and interchanges are experiencing levels of congestion and loadings they were never expected to bear. In the next 25 years, Ohio faces the daunting task of rebuilding the 50 percent of our interstate highways that have the original roadbeds, drainage systems and pavements built during the interstate's original construction.

At a time when we face the massive task of rebuilding history's greatest public works project, we also face the ominous warning that our basic source of financing that system is at risk. We see clear signs that the federal Highway Trust Fund - the basic financial cornerstone of our infrastructure network - is at risk.

The trust fund adequacy is at risk because we may be on the verge of a significant shift away from the basic liquid fuels which have powered our highway network. Gasoline and diesel fuels may well be gradually replaced by ethanol, by fuel cells, by batteries and perhaps by technologies that we now can only dream of. These advances are good - they may bring us cleaner, domestically produced energy. However, they will require significant new approaches to how we tax fuels, vehicles and our transportation system users.

User fees - and the idea that users should pay as they go - have been fundamental to America's highway system - especially since enactment of the Federal Highway Trust Fund in 1956. However, Ohio's experience with the rapid rise in ethanol use illustrates growth in alternative fuels comes at a price to highway revenues.

Ohio is a national leader in the use of ethanol-blended fuels. While nationally gasohol use comprises about 11 percent of the country's gasoline sales, in Ohio it comprises 40 percent of all gasoline sold at the pump. We are a national leader in ethanol use for two primary reasons. First, we are a huge fuel market because of our large transportation system. Nationally we are the country's fifth largest motor fuels market. Second, we are close to the sources of ethanol production which are in the Midwest. Gasohol has chemical properties that prevent it from being shipped by pipeline. It is moved primarily by truck. The limits of the gasohol market to date have been defined by where it is economical to ship it by truck. Therefore, gasohol use has risen steadily in Ohio in the past two decades until today it comprises 40 percent of all motor fuel sold in Ohio. This is not the case in Florida, Texas, California or the Northeast - which comprise other large markets that are too far for gasohol to be trucked economically.

As you probably know, there is a substantial federal tax incentive on ethanol and not all of the tax that is collected on ethanol goes to the highway trust fund. For gasoline, there is an 18.4 cent per gallon federal tax. For ethanol, there is a 5.3 cent per gallon tax reduction. In addition, 2.5 cents of the tax collected goes to the general fund for deficit reduction instead of going to the Highway Trust Fund. In effect, there is a nearly 8 cent per gallon reduction in the Trust Fund receipts for each gallon sold.

Nationally, that results in an estimated $1.1 billion reduction annually to the Highway Trust Fund, or a loss of about 4 percent. In Ohio, however, the percentage loss is much greater. Recall that I said in Ohio ethanol comprises 40 percent of our fuel use. That means that Ohio's contribution to the federal Highway Trust Fund is reduced about $166 million annually. That affects Ohio tremendously because Ohio is a federal donor state and in the federal highway funding formulas, Ohio's federal receipts are predicated on what Ohio pays in to the trust fund.

As our contributions to the Highway Trust Fund are reduced by the federal tax incentive on ethanol, our federal returns likewise are reduced. We estimate that Ohio's federal highway apportionment is reduced by $150 million annually as a result of our substantial use of ethanol. Not only is Ohio penalized, but because we are such a large contributor to the Highway Trust Fund, the national revenue available from our contributions are also reduced.

To put $150 million into perspective, it equals about 15 percent of our entire federal highway apportionment. It is twice as much as we spend to maintain all of our rural two-lane pavements each year. It represents five years worth of spending to address high accident locations. It approximates a year's allocation to Ohio's 16 metropolitan planning organizations for urban projects. One-hundred and fifty million dollars represents a substantial opportunity cost to the State of Ohio.

As the use of ethanol and other alternatives fuels increase, Congress will see such losses growing across the country. It has been estimated that California could lose in excess of $400 million in federal funds each year if it shifts from the polluting additive MBTE to ethanol instead.

The contradiction is obvious. If an Ohio or a California use these domestically produced, clean burning fuels they then face a loss of federal funds. I call this the ethanol penalty. We are penalized for responding to the explicit federal policy which encourages us - and which creates market forces which compel us - to use alternative fuels.

This loss of revenue is most acute on the donor states. I realize this hearing is not the forum to discuss the complex and controversial issue of each state's rate of return. I realize that each state faces unique needs. However, to date the donee states have not been as affected by ethanol use because their rate of return is not predicated upon what they contribute to the Highway Trust Fund. As their use of ethanol rises, their individual return is not affected. However, for large donor states such as Ohio or California, the increased use of ethanol comes at a price.

Let me stress, I am a supporter of ethanol. I am a member of the Governors' Ethanol Coalition. I recently signed legislation to promote construction of the first ethanol plant in Ohio, which we hope to attract. However, I also recognize and I urge Congress to recognize that current federal formulas penalize states for using this domestically produced, clean-burning fuel.

This issue has received some consideration already by Congress and by AASHTO, the American Association of State Highway and Transportation Officials. Some possible solutions have been suggested and I encourage you, Mr. Chairman,to give them your full consideration.

My good friend, Representative Rob Portman, has sponsored legislation - as has Senator Baucus - to restore the 2.5 cents collected to the Highway Trust Fund. We believe this is fair, equitable and consistent with the user pay philosophy. This alone would restore $350 million annually to the Trust Fund.

It is under consideration by AASHTO and others to urge Congress to repay the Highway Trust Fund with general fund dollars for any losses of revenue due to tax incentive. I realize this will be difficult but I urge you to fully consider the transportation benefits of restoring the trust fund receipts, which would produce $700 million annually.

It would help if the Highway Trust Fund could keep the interest earned by the trust fund. AASHTO estimates this could generate $550 million annually, and would help offset the alternative fuel losses.

Finally, I urge Congress to be fully cognizant of the loss of infrastructure revenue in the future as the use of non-fossil fuels increase. Over time, what Ohio has experienced will be shared by an increasing number of states and will affect the overall health of the Highway Trust Fund. Many energy strategies are admirable from an environmental perspective. Increased fuel economy standards, alternative fuels, hybrid and electric vehicles all may play a role in our changing energy strategies. However, each will reduce or alter the way in which we generate highway user fees.

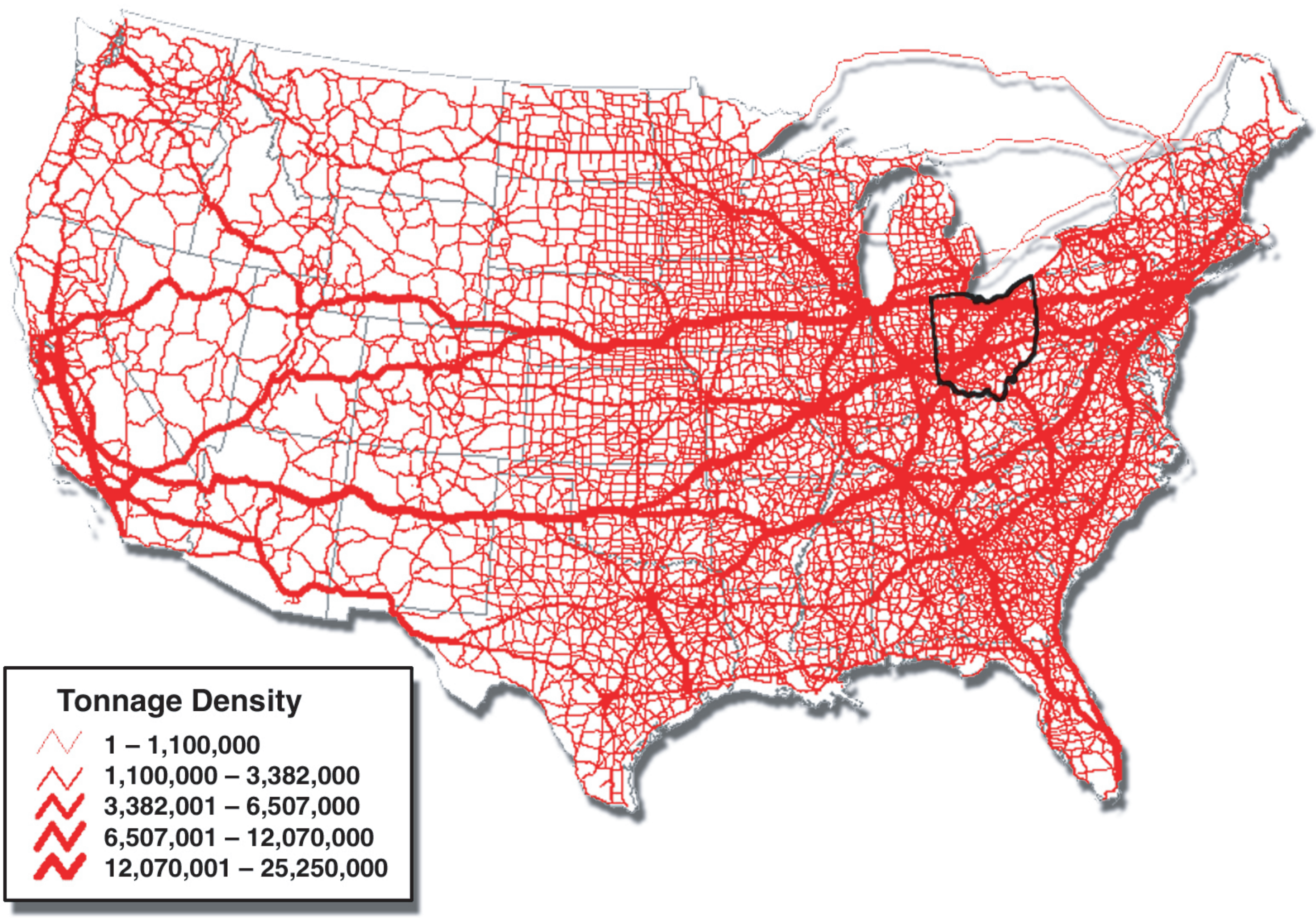
I am proud to be Governor of a state that uses ethanol and I am proud of the excellent transportation system we have built in Ohio. I urge this Committee and I urge Congress to help us find a way to have both renewable fuels and a sound transportation system.

Thank you again for this opportunity and I would be happy to answer any questions.

National Truck-Freight Flows, 1998

All Commodities; All Truck Types

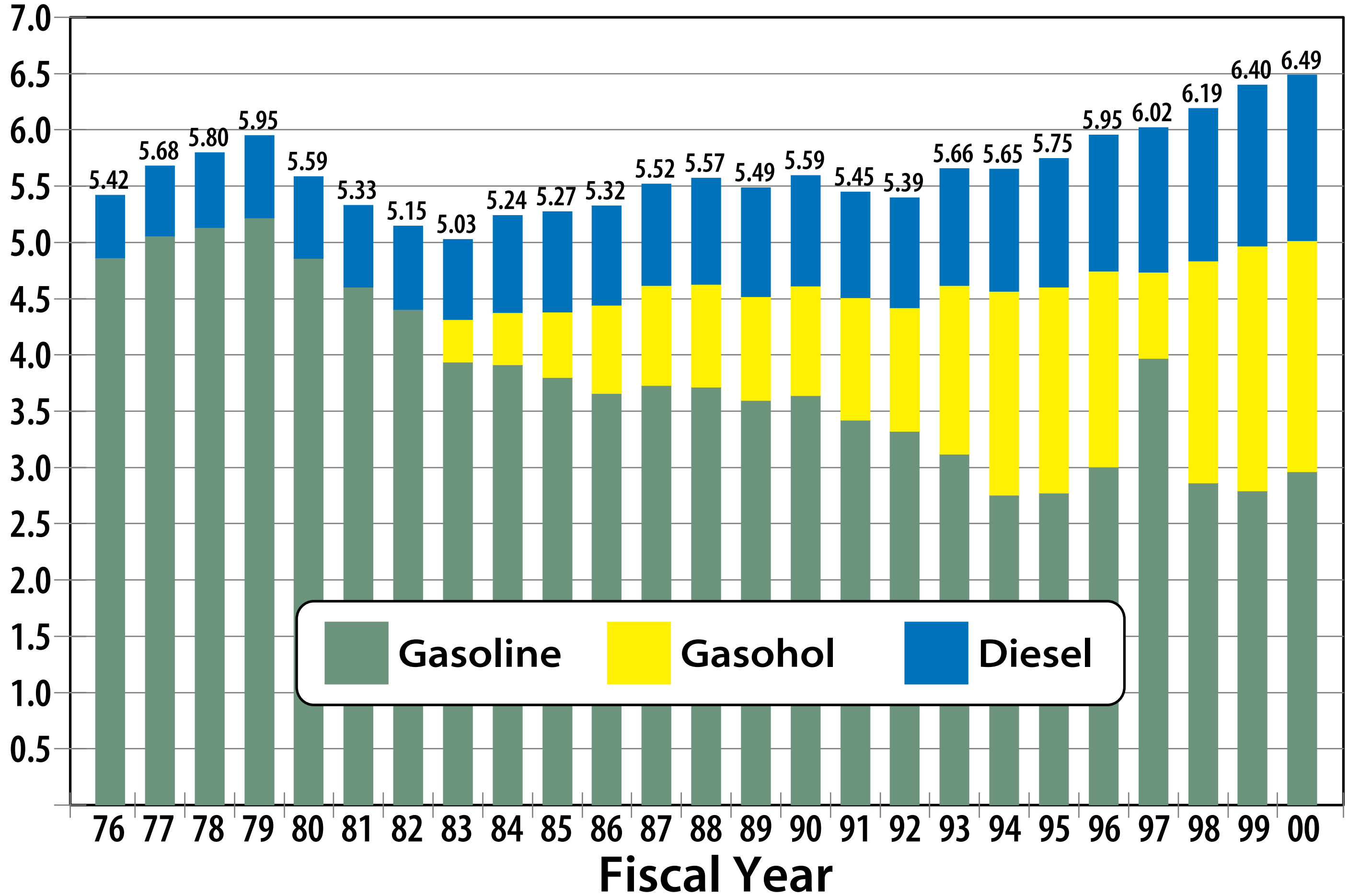
Highway-Freight Density in Tons



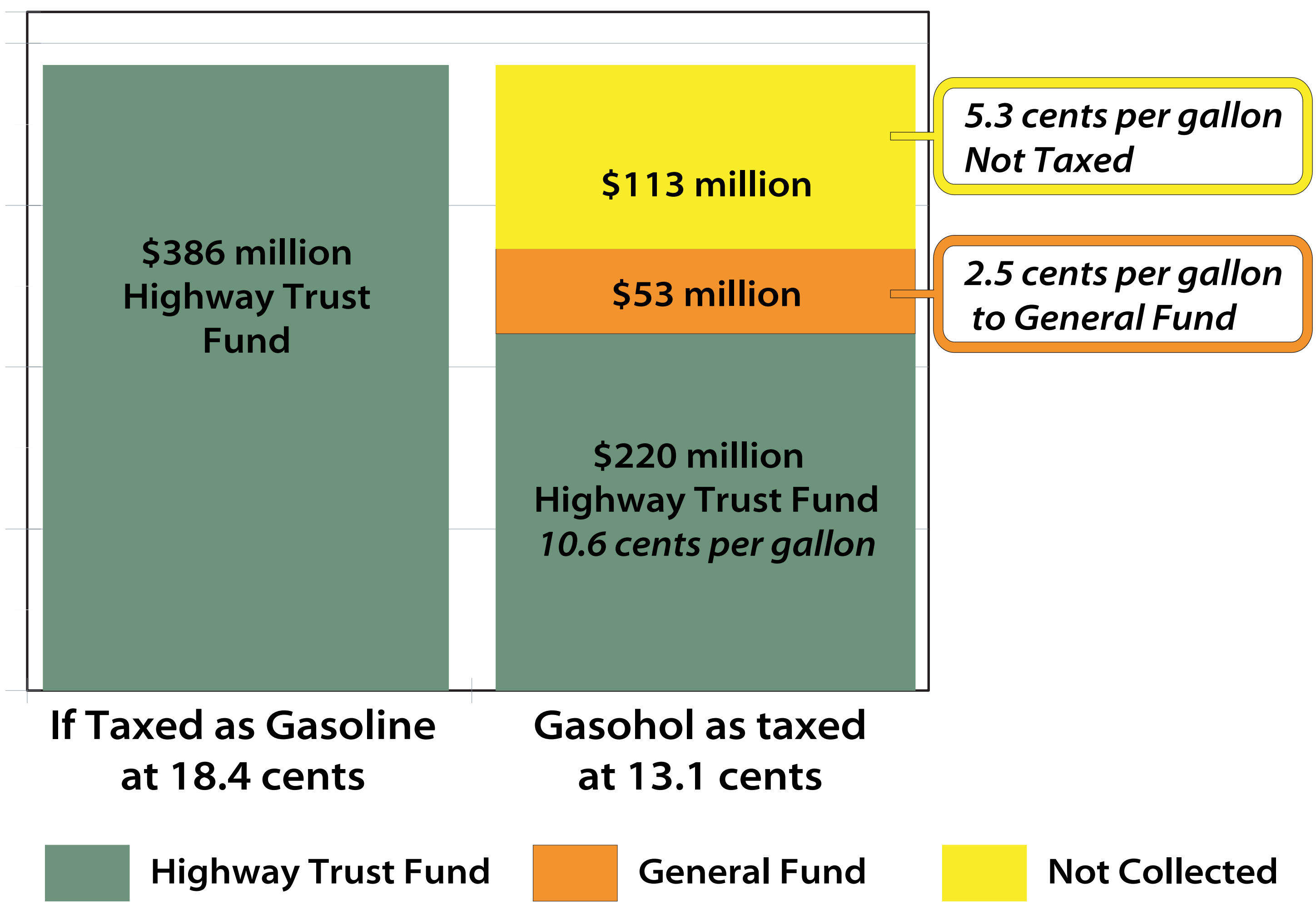
Source: FHWA Freight Analysis Framework Project
Reebie Associates 1998 data (1st Approximation)
WEFA economic data and forecasts

Ohio Motor Vehicle Fuel

Billions of Gallons Taxed



Revenue Difference From 2.1 Billion Gallons of Gasohol Sold in Ohio



Trust fund revenue includes 0.1 cent per gallon to leaking underground storage tank trust fund.